

FDIC State Profile

Winter 2005

Texas

Job growth during the current expansion has been weighted heavily toward services.

- Texas has added almost 270,000 jobs in the past two years, and a new quarterly employment peak was established in first quarter 2005 (see Chart 1). Since the last employment trough Texas employment has grown at an annualized rate of 1.4 percent.
- Over half of net job growth has occurred in the professional and business, educational and health and leisure and hospitality services sectors. The cyclical construction and trade industries are once again adding jobs, but employment in the manufacturing and information sectors remains weak.
- The huge loss of information and manufacturing jobs since the 2001 recession represents some of the highest-paying jobs in the state based on average weekly wages. The information and manufacturing sectors paid 41 percent and 36 percent above the statewide average, respectively in second quarter 2005.¹ Meanwhile, many of the jobs created over the past two years were in the lower-paying (below state average) sectors of retail trade, education and health services, and leisure and hospitality services.
- Texas employment is expected to grow by 2.5 percent in 2006 according to Moody's Economy.Com (2.5 percent).² This robust job growth combined with a tighter labor market should stimulate faster gains in wage and salary incomes.

Rising energy costs will squeeze consumers pocketbooks perhaps dampening spending.

- Growing global demand and the aftermath of hurricanes Katrina and Rita have resulted in upward price pressures for petroleum-based products and other sources of energy. When combined with rising interest rates, weak home appreciation gains and already stretched consumer balance sheets, consumer spending and economic growth in Texas could dampen in 2006.

Chart 1: Having Surpassed its Previous Employment Peak, the Texas Economy is Clearly in Expansion

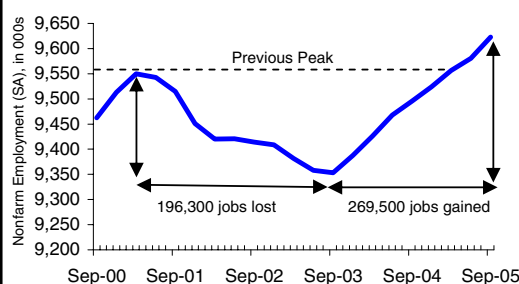


Chart 2: The Inventory of Unsold Homes in Texas Continued to Fall in 2005, Despite Rising Nationally

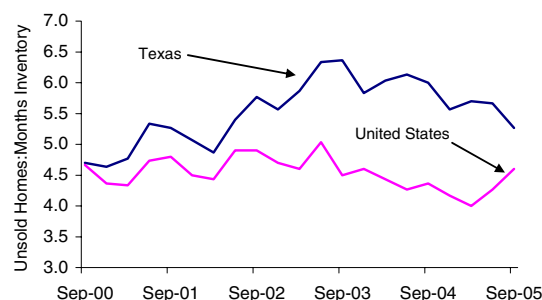
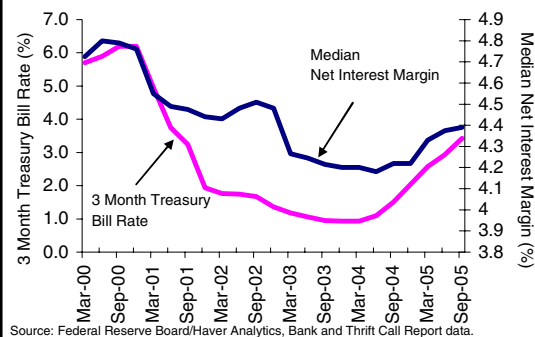


Chart 3: Texas Financial Institutions Have Benefited from Recent Short-Term Rate Increases



¹Second Quarter 2005 "Texas Quarterly Census of Employment & Wages," prepared by the Texas Workforce Commission.

²U.S. Regional Forecast-State Employment Growth," Moody's Economy.Com November 28, 2005.

State Profile

- In particular, natural gas prices are projected to be 37 percent higher this winter compared to last year for southern U.S. households.³ Natural gas is a major input source used to generate electricity in the state. Already several large state utilities firms have announced double-digit rate increases for electricity this winter as a result of expectations of higher demand and possible supply constraints.⁴

Overheated housing markets are not a problem in Texas.

- Although recent trends in U.S. existing home sales and inventories suggest some moderation in the U.S. housing market, this is also a traditionally lower demand period. However, Texas' existing single-family home sales achieved a new high in third quarter 2005, and the volume of single-family building permits was more than 13 percent higher through the first nine months of 2005 when compared to the same period the prior year. Inventories of unsold homes have actually fallen in Texas over the past two years (see Chart 2).
- The state's housing market should remain healthy despite an uptrend in mortgage rates.

Texas insured institutions posted solid results for the first nine months of 2005.

- Banks and thrifts headquartered in Texas posted a median return on assets (ROA) of 1.16 percent for the nine months ending September 30, 2005, a figure above the median ROA for the same period of the past two years and higher than the national average of 1.07 percent. Improving credit quality has allowed provision expenses to remain at decade low levels.

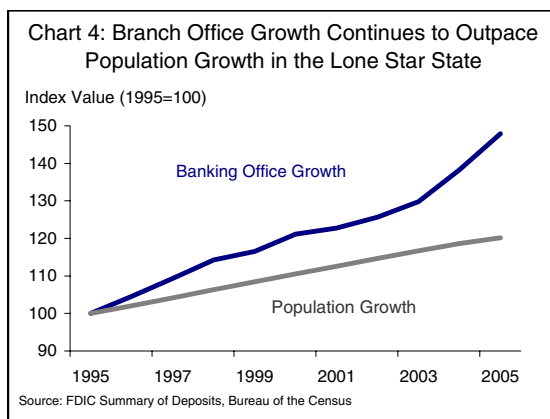
Financial institutions in the state have recently benefited from short-term interest rate increases, but concerns remain.

- There is a significant positive correlation between short-term interest rates and Texas financial institutions' median net interest margins, suggesting that the state's institutions have been relatively asset sensitive and have benefited from recent short-term interest rate hikes (see Chart 3).
- However, the spread between 10 year U.S. Treasury notes and 3 month US Treasury bills as of October 2005 (based on monthly averages), was at the lowest level since March 2001 just prior to the last recession. Since a flattening yield curve has historically been a problem for bank earnings, recent decreases in spread imply increasing pressure on future margins.

- According to a recent national survey of bank executives, 56 percent said they expect interest rates to have a negative impact on earnings in the near term, up from 31 percent a year earlier.⁵

Texas branch growth continues to exceed population expansion.

- Supported by strong population growth, Texas branch growth has remained strong over the past decade (see Chart 4), averaging twice the U.S. rate. This trend has accelerated in recent years as large financial institutions pursue expectations of strong economic growth in the Lone Star state.
- Texas is home to ten of the top thirty metro areas in the U.S. with the fastest rate of year-over-year branch growth. Population for a majority of these Texas metro areas is growing at a faster pace than the U.S. average.



³Short-Term Energy Outlook—November 2005, prepared by the Energy Information Administration.

⁴"Gas-Heavy Texas Sees Retail Rates Soar," Natural Gas Week, October 17, 2005.

⁵American Banker Financial Services Executive Forum, Third quarter 2005.

Texas at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q3-05	Q2-05	Q3-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.3%	1.2%	1.5%	1.2%	-0.5%
Manufacturing (9%)	0.0%	-0.2%	-0.3%	-1.2%	-5.1%
Other (non-manufacturing) Goods-Producing (7%)	2.3%	1.4%	-0.6%	-0.5%	-2.1%
Private Service-Producing (66%)	1.5%	1.5%	2.2%	1.8%	0.0%
Government (17%)	0.8%	0.8%	0.9%	0.6%	1.2%
Unemployment Rate (% of labor force)	5.1	5.4	6.0	6.1	6.7

Other Indicators	Q3-05	Q2-05	Q3-04	2004	2003
Personal Income	N/A	7.6%	5.7%	6.0%	3.9%
Single-Family Home Permits	17.5%	10.4%	1.7%	8.3%	9.3%
Multifamily Building Permits	33.9%	-10.8%	9.2%	-12.9%	5.4%
Existing Home Sales	13.9%	8.7%	8.5%	14.1%	3.2%
Home Price Index	5.3%	5.0%	3.6%	3.2%	3.2%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	5.31	4.59	4.14	4.18	4.23

BANKING TRENDS

General Information	Q3-05	Q2-05	Q3-04	2004	2003
Institutions (#)	672	677	686	681	697
Total Assets (in millions)	229,454	224,280	211,093	215,455	200,187
New Institutions (# < 3 years)	24	25	21	24	20
Subchapter S Institutions	264	266	263	262	259

Asset Quality	Q3-05	Q2-05	Q3-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.52	1.49	1.71	1.77	2.04
ALLL/Total Loans (median %)	1.20	1.22	1.24	1.23	1.27
ALLL/Noncurrent Loans (median multiple)	2.37	2.63	2.11	2.14	1.91
Net Loan Losses / Total Loans (median %)	0.08	0.07	0.10	0.14	0.18

Capital / Earnings	Q3-05	Q2-05	Q3-04	2004	2003
Tier 1 Leverage (median %)	9.68	9.57	9.58	9.42	9.07
Return on Assets (median %)	1.20	1.14	1.15	1.04	1.02
Pretax Return on Assets (median %)	1.52	1.45	1.44	1.33	1.28
Net Interest Margin (median %)	4.51	4.40	4.36	4.22	4.21
Yield on Earning Assets (median %)	6.11	5.85	5.54	5.44	5.59
Cost of Funding Earning Assets (median %)	1.60	1.41	1.10	1.10	1.33
Provisions to Avg. Assets (median %)	0.10	0.08	0.10	0.12	0.16
Noninterest Income to Avg. Assets (median %)	0.90	0.88	0.93	0.91	0.93
Overhead to Avg. Assets (median %)	3.43	3.38	3.39	3.41	3.36

Liquidity / Sensitivity	Q3-05	Q2-05	Q3-04	2004	2003
Loans to Assets (median %)	57.9	56.5	56.9	56.7	53.8
Noncore Funding to Assets (median %)	17.5	17.5	16.5	16.8	16.3
Long-term Assets to Assets (median %, call filers)	11.5	12.4	13.5	13.3	13.6
Brokered Deposits (number of institutions)	101	89	78	79	76
Brokered Deposits to Assets (median % for those above)	3.6	3.7	3.7	3.7	2.8

Loan Concentrations (median % of Tier 1 Capital)	Q3-05	Q2-05	Q3-04	2004	2003
Commercial and Industrial	84.2	83.4	82.2	84.7	85.8
Commercial Real Estate	158.9	156.5	149.7	152.7	144.8
Construction & Development	29.9	28.7	29.0	26.8	26.5
Multifamily Residential Real Estate	1.9	2.0	2.0	1.8	2.0
Nonresidential Real Estate	109.1	111.9	104.0	107.6	98.4
Residential Real Estate	95.5	99.3	101.9	99.5	102.8
Consumer	60.5	61.0	64.4	64.6	70.9
Agriculture	35.1	34.4	33.7	35.2	32.5

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Dallas-Fort Worth-Arlington, TX	176	113,409	< \$250 million	551 (82%)
Houston-Baytown-Sugar Land, TX	109	99,753	\$250 million to \$1 billion	85 (12.6%)
San Antonio, TX	58	31,249	\$1 billion to \$10 billion	32 (4.8%)
Austin-Round Rock, TX	64	15,749	> \$10 billion	4 (0.6%)
McAllen-Edinburg-Pharr, TX	17	6,791		